ISSUE BRIEF

Reform the Current Tax Regime

Americans deserve a simpler, fairer more pro-growth tax system that is all-inclusive

Problem:

One of the greatest obstacles to increased economic growth is an impossibly complex and ever-changing tax code that is biased against savings and investment. Eighty-three percent of small businesses —are pass-through entities, meaning they file taxes at the individual income tax level instead of the corporate level and face the same marginal tax rates as individuals.

- Results from the NSBA 2017 Taxation Survey indicate that the majority (58 percent) cited administrative burdens, while 38 percent highlighted financial burdens as the most significant challenges to their business posed by federal taxes.
- In 2017, 40 percent of small businesses reported they spend more than 80 hours per year dealing with federal taxes, the majority spent more than 40 hours per year.
- The majority of small businesses say that federal taxes have a significant to moderate impact on their business decisions and the day-to-day operation of their business.
- Pass-through businesses are subject to both the federal individual income tax, with a top rate of 43.4 percent, and state and local income taxes, with rates up to 13.3 percent.
- Although traditional C corporations pay a higher overall tax rate on their income, there are specific advantages to the C corporation—the ease of raising money, less restrictive shareholder rules (compared to an S corporation), and deferral of domestic taxation.
- Increases to the individual tax rate taxes the capital small businesses rely on to purchase new equipment, pay salaries and benefits of workers, and meet day-to-day expenses.
- If the business tax base is broadened, i.e.: eliminating certain business credits and deductions, and corporate tax rates substantially lowered while individual tax rates are reduced only slightly or not at all, the result will be a tax increase on those small businesses – many of which rely on such credits and deductions.

Solution:

One of the main goals of fundamental tax reform is to make U.S. businesses more competitive and to increase economic growth. This requires a reduction in taxes on businesses and investment. NSBA supports a broad overhaul of the tax system by dramatically broadening the base—cutting the breaks that litter the tax code—and lowering rates. As Congress debates what tax system should replace the current one, NSBA believes it is imperative that the U.S. moves towards a simpler, fairer tax system that does not attempt to only tweak one piece of the puzzle but instead is a permanent solution.

- Lower individual tax rates commensurate with corporate rate cuts. Congress should provide the same rate for all businesses whether organized as C corporations or pass-through entities. Allowing U.S. pass-through entities to compete with larger U.S. corporations is as important as allowing U.S. multinational corporations to compete on an equal basis with foreign multinationals.
- Qualified Personal Service Corporation income should flow out at individual tax rates.
- Allow businesses to immediately deduct the full cost of qualified capital investments, with interest deductibility for those with gross receipts under $10 million.
- Repeal the Alternative Minimum Tax and the estate tax to help small business owners pass their companies down to the next generation without the same tax burdens they face today.
- Enact destination-based cash flow tax that provides for "border adjustments" that would eliminate U.S. tax on products, services, and intangibles exported abroad and impose a 20 percent U.S. tax on products, services, and intangibles imported into the U.S.

Learn More: Read NSBA's 2017 Taxation Survey